

Request for Comment

General Comments:

The National Ground Water Association appreciates the opportunity to provide comments to the Rural Utilities Service as they begin to develop regulations to implement Section 306E of the Consolidated Farm and Rural Development Act.

The National Ground Water Association (NGWA) is a not-for-profit organization founded in 1948 as the National Water Well Association. Its name changed in 1991, and has grown to include more than 15,000 professionals around the world. These members are served through educational offerings, training, and current up-to-date information on the ground water industry delivered through a variety of resources.

NGWA established the Foundation for Affordable Drinking Water (Foundation) specifically to meet the financial needs of a constituency that has, as their only barrier to safe affordable drinking water, a lack of financial resources. The Foundation established a low interest loan program as a step in addressing this critical need. The loan program mirrors the terms defined in Section 306E of the Consolidated Farm and Rural Development Act. The Foundation is a charitable foundation, recognized under IRS Code 501(c)3. The National Ground Water Association has funded the Foundation with cash contributions of \$100,000 in 2002, \$100,000 in 2003 and has committed an additional cash contribution of \$150,000. These funds are used for the Foundation's lending program.

The National Ground Water Association (NGWA) further supports the Foundation through providing office space, staff support, communications and computer systems resources and other miscellaneous services. In addition, NGWA provides to the Foundation the technical support necessary to assure that the individually owned ground water systems solutions proposed by contractors is appropriate under the circumstances, assists in recommending alternative solutions when appropriate and in acting as an intermediary between the homeowner and the Foundation when technical issues arise.

The Foundation's lending program has been in place in Ohio since March 2003, with approximately \$80,000 in loans outstanding. The program recently expanded to Iowa (December 2003) and is expected to further expand as funding becomes available. The Foundation is audited by an independent auditing firm.

The Foundation utilizes the experience and expertise of the National Ground Water Association's (NGWA) staff and membership to help solve individual problems.

The NGWA is the hallmark organization for anyone associated with the ground water industry. NGWA is headquartered in Westerville, Ohio. Its constituency consists of ground water geologists and hydrologists, engineers, ground water contractors, manufacturers, and suppliers of ground water-related products and services.

NGWA's purpose is to provide guidance to members, government representatives, and the public for sound scientific, economic, and beneficial development, protection, and management of the world's ground water resources.

NGWA hosts educational courses and conferences on cutting-edge technology throughout the United States. It publishes three award-winning publications, *Water Well Journal*, *Ground Water Monitoring & Remediation*, and *Ground Water*.

The NGWA conducts two annual lecture series, the Darcy Hydrogeology Lecture Series and the McElhiney Distinguished Lecture Series in Water Well Technology, at colleges and universities around the world. It also maintains Ground Water On-Line®, a database containing more than 90,000 ground water literature citations.

The NGWA also has voluntary certification programs in well construction and pump installation as well as one for ground water professionals (scientists and engineers). The well construction and pump installation program is so respected it is used by some states for licensing.

For additional information about the NGWA, go to www.ngwa.org.

The National Ground Water Association presents the following comments on areas of specific interest as identified by the Rural Utilities Service in their Notice of Inquiry.

1) Grantees' experience with individual household water systems and the importance of having a staff with both technical and lending experience.

Congress, in Section 306E of the Consolidated Farm and Rural Development Act directs that "In awarding grants under this section, the Secretary shall give priority to an applicant that has substantial expertise and experience in promoting the safe and productive use of individually owned household water well systems and ground water." The Foundation for Affordable Drinking Water and the National Ground Water Association support this Congressional directive that grantees have such expertise and experience. (See section on priority points for additional comment)

Ground water utilization as a safe, affordable and renewable source of drinking water for individually owned household water well systems requires significant technical expertise. This expertise includes, among other things, local knowledge of geologic conditions, properly locating a well site, utilizing appropriate water well construction practices, well and pump sizing, and protecting the ground water itself. Water well systems themselves are complex structures. Given these factors, it is important that the grantee have technical experience and knowledge in individual household water well systems to be able to assess the appropriateness of solutions offered by contractors, to assess the accuracy of cost proposals for household water well systems and ultimately to assure that the program is carried out in the best interests of the homeowner and the taxpayer.

Lending experience, in addition to technical expertise, on the part of the grantee should be a consideration and priority points awarded appropriately. (See section on priority points for

additional comment) Lending will have to take into consideration severity of need, the borrower's access to financial assets to pay for the work and the borrower's ability to repay the loan. Experience in the review of loan application documents, obtaining credit reports, assessing credit worthiness and underwriting is necessary. Acting as lender, the grantee has to have operational, accounting and internal control systems in place to protect the integrity of the funds.

2) *Should there be a requirement to leverage funds or should RUS give priority points to those who do leverage funds?*

There should be no requirement in the rules that the grantee match or otherwise leverage funds. Priority points should be given to those grantees that do leverage funds (See section on priority points for additional comment). The leveraging of funds could take the form of in-kind contributions as well as financial contributions to the loan pool and/or to fund the administrative costs of operating the program.

3) *What percentage of financing should be allowed and what percentage of the project costs should the borrower cover?*

NGWA recommends that loans for the total project costs, up to the statutory limit of \$8,000, be allowed. The nature of the constituency targeted for this program, low and moderate income rural homeowners, does not lend itself to cost sharing by the borrower. Sharing on the part of the borrower would require that the borrower be able to come up with a lump sum payment in the form of cash or additional borrowing from some other source. These borrowers have come to the lending program precisely because other lending options are not viable and/or they lack the financial resources to come up with the equivalent of down payment. The regulations should allow, although not require, the grantee to have the ability to establish cost sharing criteria on the part of the borrower, in those circumstances where the financial resources of the borrower allow for cost sharing.

There will be instances when the total cost of a project will exceed the \$8,000 limit. In these cases, the homeowner will have to share in the project cost through other financial arrangements.

4) *Should administrative and servicing fees be an eligible grant purpose? If so, what should be the limit on those fees?*

NGWA recommends that the direct costs of administering the lending program and servicing fees be treated as eligible expenses to be covered by the grant. These costs may include, but not be limited to:

- Personnel costs associated with distribution of loan program materials, loan application review and underwriting, and loan document execution
- Program marketing expenses including development and distribution of marketing brochures.
- Supplies and printed materials necessary to carry out the lending activity

- Travel costs associated with program promotion
- Expenses associated with fraud prevention and detection
- Administrative overhead

In the experience of the Foundation for Affordable Drinking Water, the direct costs are approximately 10% of program revenue. Administrative expenses/overhead is approximately 5% of program revenue. It is recommended that the grant application require that administrative costs be identified. Congress authorized in Section 306E the charging of administrative expenses to the grant, although there is no specification as to the amount allowable.

The rules should also allow for the grantee to charge the borrower an administrative fee. Administrative fees should be an eligible loan purpose. Grantees should be required in their grant application to identify the circumstances under which these administrative fees may be charged and the maximum amount that will be charged.

5) Several RD lending programs are limited to applicants who cannot obtain financing from commercial sources at reasonable rates and terms. How should the homeowner show an inability to obtain financing from other sources?

If there is indication of ability to obtain financing elsewhere, the homeowner should be required to pursue that alternative before being considered for a loan under the loan program. The ability to obtain financing elsewhere may be indicated by use of income to debt ratios, such as the Total Obligations (TO) to Income (I) Ratio (expressed as TO/I). Standards could be established, setting this ratio such that, at a stated level, it is presumed that the homeowner has the ability to obtain financing elsewhere. Homeowners who fall into this category would then be required to show proof of denial of credit. The regulations should allow the grantee flexibility to approve loans in these circumstances.

In the Foundation's loan program, the underwriting process determines whether proof of inability to access traditional lending sources is required. In our experience, the homeowner utilizing our program does not have the ability to access traditional lending institutions. Home equity and other collateral are limited, and traditional underwriting ratios do not provide enough flexibility for a lending institution to issue a loan. Acceptable risk on the part of a lender is in part covered through interest rate and loan terms. Increases in interest rate to the target constituency, and/or decreases in loan term, further inhibit the homeowner from meeting ability to pay criteria.

6) RUS is considering the use of the Central Servicing Center for servicing the loans, including processing loan payments, reviewing financial statements, and other responsibilities involved in loan servicing.

We understand that the Central Servicing Center primarily services rural housing loans for the USDA Rural Housing Service (RHS) and that they would not be equipped to do loan

underwriting. We would not see the need to evaluate borrower financial statements after the loan is made unless there is a problem that needs to be worked out.

If the grantee has a similar loan program in place, then we recommend that the loan servicing and processing remain with the grantee. One of the concerns in loan underwriting under this program is ease of application and speed of review and approval. The uniqueness of the constituency that this program targets, and the specificity of the use of funds, would indicate the need for a combined technical expertise in individually owned household water well systems, and lending experience. (See response to question 1). Applicants under the program are in immediate need of in-home drinking water.

7) *What should be eligible and ineligible loan purposes?*

Based on the experience of the Foundation for Affordable Drinking Water, we would recommend the following as eligible costs and ineligible costs as related to financing individually-owned household water well systems.

Eligible Costs

- o Labor, materials and associated fees with the construction, refurbishment or servicing of a household water well system
- o Pump installation/replacement costs, including labor and materials necessary to connect the pump to an electrical source
- o Well abandonment costs associated with replacing an existing individually owned household water well system.
- o Water storage tank installation/replacement including labor and materials to remove an existing water storage tank
- o Water treatment systems
- o Other approved techniques that facilitate the access to safe, affordable ground water or refurbishing of the household water well system (e.g. hydraulic fracturing or well rehabilitation through acid treatment)

• Ineligible Costs

- o Any costs incurred before receipt of a completed loan application and loan approval by the grantee.
- o To pay off or refinance existing indebtedness
- o For any purpose other than the approved purpose
- o Costs in excess of \$8,000
- o Connections to public water systems
- o Alternative drinking water sources (springs, cisterns, ponds, etc)
- o Dowsers or water “witches”
- o Wells not in a rural area
- o Wells for new homes and homes less than one-year old at the time the well failed

Typical Costs

Region	Drilling		Pumps	
	(no Pump Install)		Jet	Submersible
North East	\$	1,973	\$ 807	\$ 1,459
New England		3,482	1,002	1,655
South East		2,330	635	1,120
Midwest		2,290	699	1,304
North		3,500	604	1,102
South		2,753	483	907
Southwest		6,582	928	1,901
West		5,765	953	2,001

Note: The above amounts come from a September 2003 Ground Water Industry Survey conducted by ResearchUSA, Inc. for the Water Well Journal. Since the date of the survey, the industry has seen significant increases in the cost of steel and plastic casing. Local geologic conditions within each region of the country can also have significant impact on the cost of drilling a well.

Other Considerations/Comments

Revolving Loan Program - Loan Repayments – Administrative Fees

As a revolving loan program, all principal repayments and any interest income earned on funds available for lending must remain available for lending. The grantee should be authorized to treat loan repayments as program revenue for the purposes of calculating administrative and servicing fees, as discussed under item number 4.

Program Termination

Should the Grantee wish to terminate the program, all funds available for lending shall be paid to the Government. And, all principal collected in the future shall be paid to the Government on a quarterly basis until all repaid principal is accounted for.

Rural Area Definition

Rural and rural areas mean any area not in a city or town with a population in excess of 10,000 inhabitants, according to the latest decennial census of the United States. (7 CFR 1980)

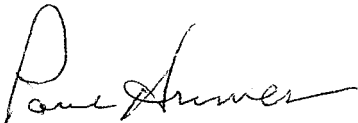
Priority Points

60	Substantial Expertise and Experience with individually owned wells (should be more than half of the points, see: 7 U.S.C. 1926e(c))
10	Available in all States
20	Experience making and servicing loans
10	Contributions by Grantee

Request for Comments - Continued

Eligibility

- Rural location of the well
- Well must be at the borrower's primary residence
- Borrower has an acceptable ownership interest such as fee simple title to the property, long-term leasehold, possessory rights on an American Indian reservation.
- Citizenship status. The applicant must be a United States citizen or a non-citizen who qualifies as a legal alien. For the purposes of this program, legal alien refers to any person lawfully admitted to the country who meets the criteria in section 214 of the Housing and Community Development Act of 1980, 42 U.S.C. 1436a.
- The borrower must be an individual person or persons such as a husband and wife.
- The household income during the most recent 12 months for which information is available must not exceed the non-metropolitan median household income for the State in which the individual resides.

A handwritten signature in black ink, appearing to read "Paul Humes". The signature is fluid and cursive, with a large initial "P" and a long, sweeping underline.

Paul Humes
Vice President, Operations and Chief Financial Officer
National Ground Water Association, Inc.